

EXHIBITS

Exhibit 3: Management Alert Report Regarding DHCD Testimony Before the City Council's Committee on Economic Development on June 16, 1999

ISSUES AND RECOMMENDATIONS

In summary, DHCD officials provided oral testimony on the amount of administrative subgrants awarded to the CDCs that differed from our audited amounts by as much as \$4,593,628, and the written testimony differed from our audited figures by as much as \$285,356.

Amount of CDBG Funds HUD Awarded to DHCD

A councilmember asked DHCD officials for the amount of CDBG funds HUD awarded to DHCD for a 2-year period. In response, a DHCD official stated that HUD provided funds in the amount of \$37 million, an understatement of at least \$9.767 million (i.e., 26.4 percent). Table D compares the oral testimony with audit results.

Table D: CDBG Funds Awarded to DHCD

	<u>FY 1997/1998</u>	<u>FY 1998/1999</u>
Oral Testimony	\$ 37,000,000	\$ 37,000,000
Actual HUD Grants	<u>47,422,000</u>	<u>46,767,000</u>
(Understatement)	(\$ 10,422,000)	(\$ 9,767,000)

Subgrant Awarded to Manna Not Included in Testimony

In addition to the foregoing, the charts provided to the Committee on the amount of subgrant awards to the CDCs did not include a \$145,000 subgrant DHCD awarded in FY 1997 to Manna. This subgrant provided administrative support for selected economic development projects and activities. We were advised that the award was based upon an unsolicited proposal and accepted by DHCD as a special project. We were further informed that the award was charged to the Special Projects budget line (and not charged against the Neighborhood Development Assistance Program budget), and therefore, excluded from the charts.

However, in a DHCD subgrant to Manna that we reviewed, Manna was referred to as a CDC. Therefore, as a CDC, Manna should have been included or explained by a footnote on the charts provided to the Committee.

EXHIBITS

Exhibit 4: DHCD's Initial Response to the Management Alert Report of September 24, 1999 (Exhibit 3)

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Housing and Community Development

Othello Mahone
Interim Director



September 28, 1999

Charles C. Maddox, Esq.
Inspector General
Office of the Inspector General
717 14th Street, NW
Washington, DC 20005

Dear Inspector General Maddox:

I am in receipt of your letter of September 24, 1999 in which you raise several pertinent issues regarding the oral and written testimony presented by the Department of Housing and Community Development before the City Council's Committee on Economic Development on June 16, 1999.

In particular, questions were asked about information provided to the Committee concerning 1) Community Development Corporation (CDC) funding, 2) the Department's CDBG budget, and 3) the matter of failure to provide responses to requests for further information presented by Councilmember Sharon Ambrose.

Your letter suggests that the Department presented financial information to the Committee that was "unclear, inaccurate, and incomplete." The reference here is to financial data presented on Neighborhood Development Assistance Program (NDAP) funding to CDCs for the past two fiscal years. I, respectfully, take exception to the characterization of the information presented. The Committee was given the amount of the *original awards* to the CDCs for FY97, FY98, and FY99. This was consistent with prior reporting to the Committee on CDC funding and was, in fact, clear, accurate, and complete in terms of what it was represented to be. The problem raised in your letter stems from questions regarding the operational definition of the term *award*. Your agency argues that the amount of the award should consist of the original amount adjusted by any amendments or modifications. From an auditor's viewpoint, that may very well be the correct conceptualization, and the Department will have to take that criticism under advisement in preparing future presentations. The Department has, in fact, revised its CDC financial reporting data for FY97, FY98, and FY99 to reflect the inclusion of award amendments. Nevertheless, the Department claimed no more or no less than that the CDC funding data it was presenting to the Committee at the time of the hearing was for the original awards, and in that regard the information was correct.

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The second issue in your letter raises concerns over whether the Department understated the amount of CDBG funding to the Committee. Again, whether the answer was correct or not is subject to some interpretation. In response to a question by Councilmember Sharon Ambrose (not a regular committee member) to Melvin Waldrop, Chief Operating Officer, regarding the agency's CDBG funding, Mr. Waldrop responded that the funding was \$37 million. Prior to that question, Councilmember Ambrose had been referring to two-year periods of time. Mr. Waldrop responded correctly that on an *annualized basis* the current CDBG funding—the federal grant amount *and* program income—is \$37 million. Your staff has opined that he should have responded with the total of the federal grant amounts only (about \$23 million) and for a two-year period (i.e., about \$46 million). Under the heat of questioning, Mr. Waldrop did not construct his answer in that manner but did provide an accurate and appropriate response to the question—DHCD's CDBG funding for FY1999 is \$37 million.

The final matter deals with the failure to get back to Councilmember Ambrose on her requests at the hearing for additional information from the Department. The Department has an outstanding history of complying with the many requests for information imposed upon it. We especially make a very serious effort to comply with information requests from the Executive and the Council. On this particular occasion, however, the person who normally, and very diligently, coordinates responses to Council questions was on leave, resulting in a slow response. Nevertheless, Councilmember Ambros' questions were addressed recently, and a copy of that correspondence is attached. The Department does have a good system in place for responding to Councilmember questions.

I want to assure you that the Department takes the matters that you raised in your letter seriously, and appropriate adjustments will be made accordingly. If I may be of further assistance in providing information on the Department's activities, please let me know. I may be reached at 442-7210.

Sincerely,



Othello Mahone
Interim Director

Enclosure

OM/jn

cc: Roy Simmons, Auditor-in-Charge

bcc:

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GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Housing and Community Development

Othello Mahone
Interim Director



September 24, 1999

The Honorable Sharon Ambrose
Councilmember
Council of the District of Columbia
441 4th Street, NW, Room 710
Washington, DC 20001

Dear Councilmember Ambrose:

You raised two issues regarding Community Development Corporations (CDCs) at the June 16th Public Roundtable held by Councilmember Jarvis on the "Fiscal Year 2000 Action Plan Approval Resolution of 1999" to which our agency promised to get back to you with more information. As the result of an inadvertence, the information you requested was just recently directed to be compiled.

The first question the Department committed to get back to you on concerned the dollar amounts and percentages of funds that went to CDCs for administrative support through the NDAP program vs. non-NDAP project support provided to the CDCs in the past two fiscal years. The breakout of DHCD-approved contracts for these two categories for the past two fiscal years is as follows:

Type CDC Funding	FY97		FY98	
	\$ millions	%	\$ millions	%
Administrative Support	4.0	69.0	4.2	57.5
Project Support	<u>1.8</u>	<u>31.0</u>	<u>3.1</u>	<u>42.5</u>
Total	\$ 5.8	100.0	\$ 7.3	100.0

The \$5.8 million in funds provided to CDCs in FY97 amounted to 12 percent of the total DHCD gross budget of \$47.5 million and the \$7.3 million in FY98 funding equaled 12 percent of the total DHCD gross budget of \$58.2 million. By comparison, the total of approved contracts to non-CDC developers in FY97 was \$0.8 million and in FY98 the figure was \$11.7 million. Although CDCs play an important role in carrying out DHCD's mission to improve our communities, they constitute only one component of a multifaceted operational strategy.

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The second question dealt with the issue of leveraging and whether the Department had required a higher leverage rate for the Task Force process than it historically had been receiving through its regular contracting process with developers. Specifically, you requested the leverage rates for non-Task Force contracts for the past two fiscal years. In FY1997 the overall leverage rate was 1.7 and in FY1998 the leverage rate was 3.2. A spreadsheet showing leverages for individual contracts for the two-year period is attached.

The minimum leverage rate required in the Task Force II process was 2.0 (a ratio of \$2 total project cost to every \$1 requested of DHCD). As you can see, the leverage rate for non-Task Force contracts for FY1998 was, in fact, *higher* than the minimum threshold level required in the Task Force process.

If I may be of further assistance in providing information on the Department's activities, please let me know. I may be reached at 442-7210.

Sincerely,



Othello Mahone
Interim Director

Enclosure

OM/jn

cc: Councilmember Charlene Drew Jarvis

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**D. C. DEPARTMENT OF HOUSING COMMUNITY DEVELOPMENT
Development Finance Division
Approved Contracts From FY 1997 1998**

Year	Borrower's Name	Purpose	DHCD Amount	Total Development Cost
97				
	1451 Park Road Cooperative, Inc.	Acquisition of property	\$767,500	\$2,000,000
	Enterprise Exchanges, Inc.	Grant for administrative cost incurred by Incubator Program	\$112,000	\$112,000
	H Street Finance Corporation	MICRO Loan Program	\$500,000	\$500,000
	Hammer, Siler, George Associates	AVE Consultant/Business Incentive Legislation	\$47,268	\$47,268
	Leland Cooperative	Rehabilitation of property	\$545,000	\$709,971
	RPJ Housing Development Corporation	Grant to provide home repairs to low-mod income families	\$100,000	\$128,000
	The Islander Caribbean Restaurant	Loan to purchase equipment and working capital	\$75,000	\$75,000
	U Street Theatre Foundation	Planning study for the U Street Theatre	\$50,000	\$50,000
	We Still Have A Dream Coop Association	Rehabilitation of property	\$86,300	\$243,625
			\$2,283,068	\$3,865,864
		LEVERAGE AMOUNT	1.69327589	
98				
	1200 U Street Associates, LLC	Rehabilitation of True Reformer	\$959,370	\$1,156,000
	1312 E. Capitol St., NE	Rehabilitation of property	\$424,186	\$582,571
	4427 Hayes St., NE	Rehabilitation of property	\$246,524	\$2,180,994
	African Heritage Center	Rehabilitation of property	\$200,000	\$500,000
	Apartment Improvement Program		\$170,000	\$170,000
	Apple Tree Institute for Educational Innovation	Grant for hard and soft cost construction cost to renovate 35,000 sq. ft space lease by Grantee from the GSA for reuse as Learning Center	\$680,000	\$2,180,000
	Associates Wrecking Group	Children's Hospital demolition	\$1,244,769	\$1,244,769
	Bread for the City	Redevelopment of vacant lot to a office space	\$200,000	\$1,130,000
	Buckmon House		\$400,000	\$925,000
	Capital Children's Museum	Grant-To construct space for a restaurant and classroom for SEED and Options Public Charter School	\$977,694	\$4,377,000
	City First Bank Holding, Inc.		\$1,000,000	\$5,000,000
	Corcoran School of Art	Grant for construction of ADA accessibility improvement of property	\$100,000	\$100,000
	DC Department of Public Works	Construction of parking lot at 18th & Bryant St.	\$115,000	\$115,000
	Emergency Shelter Grant		\$619,000	\$619,000
	Environmental Construction Services	Removal of underground storage tank on Parcel 42, Shaw School	\$24,850	\$24,850
	Foundation For Educational Innovation	Grant for hard and soft cost construction cost to renovate 35,000 sq. ft space lease by Grantee from the GSA for reuse as Learning Center	\$950,000	\$4,136,000

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Development Finance Division				
Approved Contracts From FY 1997 1998				
Year	Borrower's Name	Purpose	DHCD Amount	Total Development Cost
	Foundation For Educational Innovation	Grant for hard and soft cost construction cost to renovate 35,000 sq. ft space lease by Grantee from the GSA for reuse as Learning Center	\$775,000	\$3,079,000
	KaBoom	Playground renovation	\$179,000	\$179,000
	National Child Daycare Association	Purchase and renovation of vacant structure for development of a state-of-the-art child development center	\$999,800	\$3,000,000
	New York Ave. Playground	Playground renovation	\$160,000	\$261,000
	Number Nine Corporation	South Capitol St., Shopping Center	\$350,000	\$1,342,000
	Park Central Associates Corporation	Predevelopment planning and Tivoli Theater historic preservation work for the 14th St., Major Comm. Svs. Ctr.	\$200,000	\$200,000
	Perry School Associates Corporation	Loan for financing hard construction cost associated with the renovation of the Perry School	\$1,580,000	\$5,000,000
	Police Boys And Girls Club	Renovation	\$50,000	\$175,000
	Simply Hair	Grant, Vendor affected by Metro greenline construction	\$12,000	\$12,000
	Source Theatre	Renovation	\$500,000	\$1,321,000
	The African Heritage Dancer and Drummers, Inc.	Grant for the renovation of amphitheater space	\$8,500	\$10,000
	Thurgood Marshall Center Trust, Inc.	Rehabilitation of YMCA Center	\$1,000,000	\$5,733,000
	Union Wesley		\$1,350,000	\$9,000,000
	Urban Land Institute	Southwest water study	\$50,000	\$100,000
	US Property Development Corporation	Acquisition of Lot 43, Square 454, Downtown Urban Renewal Area	\$2,939,326	\$2,939,326
	Veterans Service Center	Rehabilitation of property	\$700,000	\$2,967,000
	Westminster Neighborhood Association	Grant for playground renovation on Parcel 35	\$178,101	\$178,101
	Woodridge Phase II	Rehabilitation of property	\$460,000	\$2,990,000
			\$19,803,120	\$62,949,611
		LEVERAGE AMOUNT	3.17877232	